

AR20

April 8, 1968

CANADIAN
INVESTMENT NOTES

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Canadian Superior Oil

| Price | 1968 Range | Cash Flow per Share | | Dividend | Yield |
|-------|------------|---------------------|---------------|----------|-------|
| | | 1967 | 1968E | | |
| \$ 42 | \$ 48 - 36 | \$2.95 | \$3.35 - 3.45 | nil | nil |

We continue to be impressed by Canadian Superior's outstanding overall progress. While disappointing exploration results so far this year and uncertain market conditions might restrain near-term stock action, we feel that the shares represent an attractive long-term commitment at the current level of \$42, down 15% from their November 1967 high of \$49½.

* * *

Largely as a result of a sharp increase in sulphur production to 284 tons per day from 37 t.p.d. in 1966, Canadian Superior's revenues and cash flow rose to record levels last year of \$30.9 million and \$2.95 per share respectively, up 27% and 25% from 1966 levels. Crude oil and natural gas production rose by 9% and 15% to new records, while sales of natural gas liquids remained virtually unchanged.

Because of Canadian Superior's large interest in the East Crossfield gas plant which came on stream last month, we expect the company to report above-average gains again this year, even assuming only a 6% increase in crude oil production. We estimate that sulphur sales should rise by about 90% to 550 t.p.d., natural gas sales should post close to a 20% gain, while gas liquids production, including condensate, probably will increase moderately. On this basis, and assuming that Canadian Superior incurs a small income tax liability for the first time this year, we look for cash flow of \$3.35-3.45 per share, an increase of 15% over last year's \$2.95.

Tentatively assessing the outlook for 1969, we feel that a full year's production from the East Crossfield and Kaybob South gas plants should result in about a 10% gain in cash flow to the \$3.85-3.95 level. Sulphur production should increase significantly again next year to close to 800 tons per day and both natural gas and liquids production should post 7-8% gains. Our estimate of cash flow assumes that crude oil production will only rise by a further 6% and makes no allowance for the company becoming involved in another major development similar to Zama North.

Exploration

On the whole, the results of Canadian Superior's exploratory drilling in Northwest Alberta this winter were disappointing. Stepouts to the northwest, north

and east of the Zama Field, two wells in the Hay Lake region, and a further two to the southwest of the Rainbow discovery area at Sabbath and Gutah Creek have not resulted in any significant finds. One well in the Hay Lake district is rumored to have encountered a large section of oil-bearing reef but, due to poor porosity, has been abandoned. Better results were obtained at Zama North where the company now has a 50% interest in 14 oil wells. Pay thicknesses vary from 50 to 230 feet.

Despite the company's lack of success, however, it would be premature in our opinion to rule out the possibility of Canadian Superior's eventual participation in other major field developments similar to Zama North in northwest Alberta. The company is one of the largest holders of land between the two discovery areas of Rainbow and Zama Lakes, and while the two wells drilled this winter were not successful, other companies have found oil only one mile south and east of this 140,000-acre permit and, so far, only five wells in total, or one well for every 28,000 acres, have been drilled on Canadian Superior's lands. At Sabbath Creek, ten miles southwest of the South Rainbow oil field, Canadian Superior holds a 50% interest in over 100,000 acres on which only four wells have been drilled so far, or one well for every 25,000 acres. Although two follow-up wells to an earlier gas discovery have proved unsuccessful, insufficient drilling has been undertaken to date to draw definite conclusions about the potential in this area. Finally, the company holds a 33 1/3% interest in two large drilling reservations in the Steen River district of Northwest Alberta, where Mobil is believed to have made two discoveries -- one oil and one gas -- in the past two months. Due to the tight security measures being enforced by the operator, little is known about these two wells. However, we are encouraged by the fact that Mobil may have an oil discovery on its first drilling attempt in such a sparsely explored area and by indications that the company may drill another four wells in Steen River during the summer. Should this prove to be the case, more should be known of the area's potential before next winter's drilling season. Canadian Superior holds a 33 1/3% interest in drilling reservations situated 2-3 miles from both of Mobil's indicated discoveries.

Other Areas

The company has participated in a gas discovery containing significant quantities of sulphur and liquids in the Fox Creek area of Central Alberta. Canadian Superior holds approximately 1,100 net acres considered to be proven or semi-proven in the new field.

Foreign Activities

Drilling operations in the Gulf of Papua resulted in a gas discovery on the second test, which flowed at a rate of 22.4 million cubic feet per day. Canadian Superior's interest in this program is 15%. Additional drilling will be undertaken

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this year, not only in the Gulf of Papua, but also in the Bonaparte Gulf on the Northwest Shelf of Australia. Four offshore structures have been outlined on the latter permit in which the company holds a 13% interest.

The Arpet Group, in which Canadian Superior holds a 3 1/3% interest, was successful on two of eleven exploratory tests in the North Sea during 1967. Additional drilling will be undertaken this year, but the pace of development will depend to a large degree upon the outcome of price negotiations with the British Gas Council. Canadian Superior has participated with other companies in the acquisition of permits in the Dutch section of the North Sea.

The company has agreed to participate with McIntyre Porcupine Mines in minerals exploration in Australia and New Zealand.

JL-P:sf

